

**IN THE MATTER OF THE APPLICATION REGARDING CONVERSION  
OF PREMIERA BLUE CROSS AND ITS AFFILIATES**

Washington State Insurance Commissioner's Docket # G02-45

**PRE-FILED RESPONSIVE TESTIMONY OF:**

**Gubby Barlow**

President and Chief Executive Officer  
Premiera Blue Cross

April 15, 2004

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**Introduction**

**Q. Please state your name.**

A. Gubby Barlow.

**Q. Please identify your employer and state your title.**

A. I am President and Chief Executive Officer of PREMERA and Premera Blue Cross (together “Premera”). Premera is located at 7001 220<sup>th</sup> Street SW, Mountlake Terrace, Washington.

**Q. Are you the same Gubby Barlow who filed direct testimony on March 31, 2004, in this proceeding?**

A. Yes.

**Q. Have you read the pre-filed direct testimony filed in this matter by the witnesses of the Office of the Insurance Commissioner, the state consultants, and the interveners in this proceeding?**

A. Yes. In particular, I have focused upon the pre-filed direct testimony of witnesses whose testimony is addressed in this responsive testimony.

**Q. Do you have a response to any of the matters set forth in that direct testimony?**

A. Yes. I would like to respond to testimony on the following subjects:

- The nature of Premera’s business;
- Premera’s commitment to Eastern Washington;
- The appropriateness of the for-profit model for health carriers; and
- Premera as an independent local company.

**The Nature Of Premera's Business**

**Q. Intervenor testimony suggests that Premera is a charitable organization operated for the benefit of the public. Is that an accurate characterization of Premera's business?**

A. No. Premera is operated for the purpose of providing health care coverage in exchange for the payment of premiums. Premera is not a charity.

**Q. Do Premera's policyholders expect to receive a benefit in return?**

A. Yes, of course. Premera provides coverage and services to those individuals and groups with which it has a contractual relationship. Policyholders make payments for the purpose of obtaining health care coverage for members, not for any charitable purpose.

**Q. What are the sources of Premera's surplus?**

A. The primary source of Premera's surplus is premiums paid by its policyholders for coverage and services provided. Premera does not solicit or receive charitable contributions.

**Q. Does Premera provide health care coverage or services on a charitable basis to any individual or group?**

A. No. As I explained above, Premera provides health care coverage and services only to those members covered under policies held by individuals and groups, and virtually all revenues received by Premera are cash payments by its policyholders for coverage provided and services rendered.

**Q. Are any of Premera's assets held subject to limitations that they be used only for charitable purposes?**

A. To the best of my knowledge, none of Premera's assets are held subject to such limitations.

1 **Q. How do Premera's operations compare to those of a for-profit insurer?**

2 A. They are the same or very similar. For example, the source of Premera's revenues  
3 is identical to that of a for-profit health insurer. Similarly, Premera – like a for-profit  
4 insurer – intends that premiums earned will exceed claims paid and operating expenses.

5 Like for-profit insurers, we are regulated by the Washington State Office of  
6 Insurance Commissioner ("OIC"). For example, we must file required annual financial  
7 statements, maintain adequate reserves, hold a certificate of authority from the OIC, and  
8 submit to periodic OIC examinations. Similarly, Premera must pay taxes on the  
9 premiums that it collects, and it is subject to assessment for the high-risk pool. These  
10 requirements are imposed on both for-profit and non-profit health carriers in this state.

11 **Q. Several witnesses have expressed the notion that a non-profit health plan is**  
12 **more attuned to the interests of the insurance-buying public than a for-profit**  
**corporation. Is this view correct?**

13 A. Not at all. A for-profit company must stay attuned to the interests of the  
14 insurance-buying public just like a non-profit. Aetna, CIGNA, United Healthcare, and  
15 PacifiCare are all for-profit companies, and they are all major competitors of Premera.  
16 We also have large non-profit competitors, such as Regence and Group Health, as well as  
17 many smaller non-profit companies. Dr. John Gollhofer, Brian Ancell, Heyward  
18 Donigan, and Dr. Thomas McCarthy discuss market competition in greater detail in their  
19 direct pre-filed testimony, but suffice it to say that the objective of all of the health  
20 insurance companies is to offer their insureds market-responsive products, broad provider  
21 networks, and superior customer service at a competitive price. Any health insurer that  
22 does not address these needs of its insureds will lose customers to its competitors.

1 Accordingly, the business incentives and imperatives of for-profit and non-profit  
2 companies are precisely the same.

3 **Q. If nothing will change, why is the conversion in the public interest?**

4 A. I didn't say that nothing will change. I said only that Premera's business  
5 incentives and imperatives will be the same. We will succeed after conversion only if we  
6 continue to stay tuned to the real interests of the insurance-buying public.

7 What will change with conversion is our sources of funding and, with it, the  
8 amount of funding that is available to us to run our business. We will be able to expand  
9 and develop new programs for current and prospective members, while at the same time  
10 improving our Risk Based Capital position. Like our for-profit competitors, Premera will  
11 no longer be capital constrained. This will enable us to compete on a level playing field  
12 in offering products and services, and growing our membership. Creating a more viable  
13 company is directly in the interest of our members, and the insurance-buying public.

14 **Q. Are there other reasons why you believe that conversion is in the public  
15 interest?**

16 A. Yes, there are many. As I said in my pre-filed direct testimony, a conversion will  
17 enhance Premera's ability to remain a strong, local, independent plan that will be better  
18 able to serve its members and attract new members. In addition, all of New Premera's  
19 initial stock will be given to charitable foundations that will be formed in Washington  
20 and Alaska to serve unmet health care needs of their residents. The Blackstone Group,  
21 the OIC Staff's investment banking consultants, estimates the value of the stock at  
22 between \$500 and \$700 million. If that is correct, E. Lewis Reid has testified that the  
23 amount per capita available to the foundations would be equivalent to the largest  
24 foundation ever created in a Blue Cross Blue Shield conversion.

**PRE-FILED RESPONSIVE TESTIMONY OF:**

**GUBBY BARLOW**

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1 **Q. Some intervenor witnesses refer in their pre-filed testimony to Premera's**  
2 **"charitable mission." You discussed Premera's mission in your pre-filed**  
3 **direct testimony. Is Premera's mission charitable?**

4 A. No. Premera's mission is "to provide peace of mind to our members about their  
5 health care coverage." This mission is not "charitable." Premera operates within a  
6 consumer-driven industry. Our customers want the knowledge and comfort that they  
7 have access to quality health care and that their health plan will stand behind their health  
8 care coverage.

9 **Q. Does Premera render free services to the indigent or calculate its health**  
10 **insurance premiums based on a particular customer's ability to pay?**

11 A. No. Premera does not provide free health care coverage to the indigent, nor does  
12 it discount the premiums it would otherwise charge (or expand the scope of coverage)  
13 based on a subscriber's financial means.

14 **Q. Does Premera have a charitable giving program?**

15 A. Yes. Like most for-profit and non-profit companies, Premera has a corporate  
16 charitable giving program. Ours is directed at improving the health and wellness of the  
17 residents in our communities.

18 As an example of the kind of program that Premera gets involved with, we are  
19 supporting the Susan G. Komen Breast Cancer Foundation Race for the Cure, which will  
20 take place in Seattle on June 6. Together with Nordstrom, Premera has been recognized  
21 as a Bronze Sponsor for this event. We are also supporting America's Walk for Diabetes  
22 to be held in Seattle in October, which I am co-chairing.  
23  
24

1 **Q. Does having a charitable giving program make Premera a charity?**

2 A. Of course not. As the examples I just gave demonstrate, Premera's charitable  
3 giving program is similar to charitable giving programs typically sponsored by for-profit  
4 corporations.

5 **Premera's Commitment To Eastern Washington**

6 **Q. Some witnesses have expressed concern about Premera's market position in**  
7 **Eastern Washington. Please comment on these concerns.**

8 A. Premera has a strong commitment to Eastern Washington. We have continued to  
9 write policies in the area, while competitors have withdrawn in the face of a weak  
10 economy. Premera believes that one of its core competitive strengths is the breadth of its  
11 provider network in the state. We have no intention of "pulling out" of Eastern  
12 Washington.

13 Premera is far from dominant in the eastern part of the state. The health insurance  
14 market is very fluid. There are no barriers to entry in Eastern Washington, as most  
15 recently evidenced by Health Net's entry into Spokane in 2002. Regence/Asuris, Aetna,  
16 United Healthcare, Community Health, and Molina offer products and services in Eastern  
17 Washington. As Brian Ancell has stated in his pre-filed direct testimony, any company  
18 that is already licensed in the state could expand into Eastern Washington.

19 Our members in Eastern Washington have benefited as much from our new  
20 Dimensions platform as our members in the rest of the state. Further, to address the  
21 concerns of the OIC Staff's consultants about Eastern Washington, we have provided  
22 assurances regarding our rate-setting and network practices.

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As our economics expert, Dr. McCarthy, has indicated, Premera does not have market power in Eastern Washington. In other words, if Premera were to raise its premiums in Eastern Washington, it would be faced with a number of competitors who would take the business away from us due to their lower premiums.

**For-Profit Model Appropriate For Health Care**

**Q. Some intervenor testimony suggests that the for-profit model is “wrong” for health care. Do you agree?**

A. Certainly not. For-profit health insurance companies have successfully been doing business for many years, providing health care coverage for millions of citizens in Washington and elsewhere. Similarly, for-profit physicians and for-profit hospitals have always been essential components of our health care system. There is no evidence, as far as I know, that for-profit health care companies are any less capable than non-profit organizations of holding down costs, maintaining the quality of health care, and providing affordable care.

**Premera As An Independent Local Company**

**Q. There is intervenor testimony to the effect that patient care and physician practice viability would suffer if Premera converted and were sold to an out-of-state entity. Please comment on these concerns.**

A. There are two assumptions here, and both of them are wrong. In the first place, there is no reason to believe that patient care and physician practice viability will be compromised in any way by Premera’s conversion. Secondly, the proposed conversion will help preserve Premera’s status as an independent, locally owned and managed company. As I said in my direct testimony, the best way for Premera to serve its members is to remain independent – rather than being taken over by an out-of-state



1 company. Access to the equity capital markets will enhance our financial flexibility and  
2 strength to compete effectively and serve our members well.

3 **Q. Does that conclude your responsive testimony?**

4 **A. Yes.**

**VERIFICATION**

I, H.R. BRERETON BARLOW, declare under penalty of perjury of the laws of the State of Washington that the foregoing answers are true and correct.

Dated this \_\_\_\_ day of April, 2004, at Mountlake Terrace, Washington.

\_\_\_\_\_  
/s/  
H.R. BRERETON BARLOW